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4. (U) THE AUSTRALIA-INDONESIA ZONE OF COOPERATION FOR THE TIMOR GAP WAS ESTABLISHED BY BILATERAL TREATY IN DECEMBER 1989 AFTER MORE THAN TEN YEARS OF NEGOTIATIONS. ITS EXPLICIT PURPOSE WAS TO PROVIDE A PROVISIONAL -- 40-YEAR -- LEGAL BASIS FOR THE EXPLORATION, DEVELOPMENT AND EXPLOITATION OF PETROLEUM RESOURCES BENEATH THE STILL-DISPUTED SEABED TO EACH SIDE OF THE SO-CALLED TIMOR GAP. THE 129-NAUTICAL MILE GAP IN THE AUSTRALIA-INDONESIA SEABED BOUNDARY WAS A LEGACY OF THE PRIOR PORTUGUESE ADMINISTRATION OF EAST TIMOR. THE TREATY CREATED A 61,000 SQUARE KILOMETER ZONE, TO BE ADMINISTERED IN PART BY A BI-NATIONAL AGENCY, THE TIMOR GAP JOINT AUTHORITY.

5. (U) THE ZOC IS SUBDIVIDED INTO THREE AREAS, A, B AND C. AREA C, ALONG THE ZOC'S NORTH END AND FLANKED BY INDONESIAN WATERS, IS ADMINISTERED BY INDONESIA, WHICH MUST PAY AUSTRALIA TEN PERCENT OF INDONESIAN INCOME TAX COLLECTED FROM PETROLEUM CONTRACTORS' OPERATING WITHIN THE AREA. AREA B, ALONG THE SOUTHERN END OF THE ZOC, IS ADMINISTERED BY AUSTRALIA, WHICH PAYS TEN PERCENT OF GROSS RESOURCE RENT TAXES FROM CONTRACTORS TO INDONESIA.

6. (U) THE JOINTLY ADMINISTERED AREA A STRADDLES THE BOUNDARY, SANDWICHED BETWEEN AREAS B AND C. IT'S 34,970 SQUARE KILOMETERS CONSTITUTE 57 PERCENT OF THE 61,000 SQUARE KILOMETER ZONE TOTAL. AREA A HAS BEEN THE SOLE FOCUS OF EXPLORATION WITHIN THE ZOC TO DATE. IT IS SUPERVISED AND ADMINISTERED BY THE JOINT AUTHORITY, UNDER THE GUIDANCE OF A BI-NATIONAL MINISTERIAL COUNCIL (COMPRISING THE AUSTRALIAN AND INDONESIAN MINISTERS OF MINES AND ENERGY). THE JOINT AUTHORITY'S HEAD OFFICE IS IN JAKARTA. A TECHNICAL DIRECTORATE IS LOCATED IN DARWIN.

7. (U) UNDER THE TREATY, THE JOINT AUTHORITY HOLDS THE OWNERSHIP OF THE AREA A PETROLEUM RESOURCES IN TRUST FOR THE TWO STATES. FOR THE PURPOSES OF THE JOINT AUTHORITY'S REVENUE SHARE, PETROLEUM IS VALUED AS IF SOLD ON AN "ARMS-LENGTH" BASIS WITHIN THE AREA FROM WHICH IT IS EXTRACTED. OWNERSHIP OF THE CONTRACTOR'S SHARE OF PRODUCTION IS TRANSFERRED AT THE POINT OF TANKER LOADING OR INPUT INTO A PIPELINE. THE TREATY PROVIDES FOR A COMPLEX CALCULATION OF PETROLEUM PRODUCTION SHARING BETWEEN THE JOINT AUTHORITY AND CONTRACTORS.

8. (U) IN 1991, THE JOINT AUTHORITY PARCELED AREA A INTO 14 SEPARATE PRODUCTION SHARING CONTRACTS (PSC) AREAS, OF WHICH 11 WERE AWARDED TO NINE CONSORTIA (COMPRISING 19 COMPANIES). A FURTHER SEVEN PSC WERE AWARDED IN 1995/1996. CURRENTLY THERE ARE 13 ACTIVE PSC. TO DATE, 39 WELLS HAVE BEEN DRILLED AND 163,000 KILOMETERS OF SEISMIC DATA COLLECTED IN AREA A. TOTAL EXPLORATION EXPENDITURES ON AREA A THUS FAR ARE USD 500 MILLION. HYDROCARBON SHOWS HAVE BEEN PRESENT IN ALL BUT SEVEN OF THESE WELLS. MORE IMPORTANTLY, SIX HAVE PROVEN OIL, AND 12 HAVE PROVEN SIGNIFICANT GAS AND CONDENSATE DISCOVERIES. INDUSTRY OBSERVERS RATE AREA A AS POTENTIALLY MAJOR PETROLEUM PRODUCING REGION.

ALI ALATAS WAS QUOTED IN THE AUSTRALIAN MEDIA AS SAYING THAT THE TIMOR GAP TREATY WOULD HAVE TO BE RENEGOTIATED. HOWEVER, HE GAVE NO INDICATION AS TO WHAT ASPECTS OF THE TREATY HE HAD IN MIND. IN A JANUARY 29 "SYDNEY MORNING HERALD" ARTICLE, EAST TIMOR RESISTANCE LEADER RAMOS HORTA WROTE THAT "CLEARLY THE TIMOR GAP TREATY WILL HAVE TO BE RENEGOTIATED." HOWEVER, ONE WEEK LATER, ON FEBRUARY 5, HE WROTE IN SYDNEY'S "HERALD-SUN" THAT "AS FAR AS AUSTRALIAN MINING INTERESTS ARE CONCERNED, LET ME ASSURE THEM WE WILL HONOUR THE TIMOR GAP TREATY."